

Romanian Real Estate – What next?**THURSDAY 10TH JUNE 2010, from 18:00 – 20:00, RCI, 1 Belgrave Square, London SW1****Introduction**

Romania's property market became a target for institutional investors following the country's accession to EU in January 2007. This led to significant profit-making for local and regional investors, who benefited from the systemic change of the 1990's and the fast-paced value inflation that followed.

2007 was a stellar year for Romania's property market; as the number, size and pricing of property transactions reached record levels there were clear signs that the local market was over-heating. Many chose to ignore them, in the belief that the country's over-optimistic government and people's natural appetite for a better standard of living would deliver ever-higher investment returns.

But Romania's new-found confidence was seriously shaken by the credit crunch that rapidly engulfed the world. The country's GDP fell by 7.2% in 2009. The credit crunch caught the country's relatively underdeveloped market on the wrong foot. With a large current account deficit, a strong currency that fuelled excessive foreign-denominated borrowing, an inefficient public sector and an inability to access billions of EU funding that could speed up its recovery.

The Romanian property bubble has finally burst. Property investment volumes dropped in 2009 by a reported 95% year-on-year, to their lowest level for 5 years.

Event Panel:

Dragos Cinca, co-founder and ex-CEO of the consumer electronics retailer Flamingo. Following the divestment of a large part of his Flamingo holding, Mr. Cinca is pursuing various real estate opportunities in Romania through his Future Real Estate vehicle, including a 1000-unit residential development on the outskirts in Bucharest."

Adrian Johnson is a Partner of EC Harris and is a Regional Board Member for Mainland Europe, North Africa and US. Adrian is responsible for Client Solutions across the whole region and all of the sectors in which EC Harris operates, i.e. Property, Industrial, Public and Infrastructure. Adrian has experience of delivering major projects in both Western and Eastern Europe and North Africa

Victor Vadaneaux is a co-founder of Centerra Capital Partners, a property firm focused on Romania, based in Bucharest. Centerra is managing 110m euros of property investments on behalf of institutional investors. One of its main activities is the re-development of a 120ha former industrial site in the centre of the city of Brasov, the largest regeneration project in the country.

Event Moderator

Adrian Ion, Director, European Finance Protego Real Estate Investors and Co-Chair of BRCC CityLink.

Event Report***Current investment yields and total returns since EU accession and land evaluation***

It is difficult to value assets in the current market, due to the lack of open market transactions. This is due to the credit crunch but also to the lack of market information. The evaluators tend to test the market for each transaction, rather than set a value from the outset.

It is difficult to value land, especially in the current climate due to the lack of investment appetite and transaction evidence. Land values are expected to continue to drop over the next three years.

Banks play an important role and by 2012 we expect some large residential projects to complete as the banks have a vested interest in these projects.

The market for luxury apartments has suffered a dramatic fall, with a significant number of empty units. Sales and rental levels will not recover for some time.

Is there a difference between Bucharest and the rest of the country?

There is definitely a tendency to move out of the city. Many developers go to Bucharest first and then move to secondary cities where they can take advantage of lower costs.

Would the panel consider investing outside Bucharest? If so, where?

Yes, from a cost point of view.

From a commercial point of view, medium-size cities have more growth potential than Bucharest. However, 50% of mortgages are available in Bucharest and Bucharest offers more immediate opportunities for residential and infrastructure projects.

Are investments currently suffering from vacancies?

Retail occupiers are increasingly demanding rent reductions. Although there has been some resistance to date, landlords are beginning to offer discounts as there is an oversupply of retail outlets. The panel believes that luxury retailers will be most affected over the coming months, so they will need to be supported by landlords otherwise they will have to leave the market.

The office market is not oversupplied and it due to its tenant mix less exposed to vacancy.

The panel observed that some new developments have reported occupancy as low as 15%. Whilst such investments would not survive in Western Europe, they are still a hold in Romania due to their low historic cost.

Banks – how did they behave, do they still lend, are they responsive to new business?

The panel highlighted the difficult situation faced by retail and residential developers, particularly given their foreign exchange exposure. The panel's view is that there is too much debt in commercial real estate, and the banks are reluctant to lend more until there is some de-leveraging and the legal system is sufficiently robust to allow them to repossess non-performing assets.

The panel particularly noted that there are difficulties when dealing with local offices of foreign banks, who do not have the necessary authority from head office. It is advisable to approach the head office directly.

The general consensus is that banks will need to start lending again to grow their business, the issue is timing. It was noted that Austrian banks have emerged from the crisis with a relatively strong balance sheet, and they will take a large share of the real estate market in Eastern Europe.

Is Romania still seeing an inflow of capital for real estate?

The panel compared Romania to Poland. Both countries offer relatively good value for developers, both in terms of construction and consulting cost. Arab investors are increasingly looking at investing in Central and Eastern Europe, due to the region's growth prospects. The panel highlighted that it is important for local developers to get to know the organisations who are open to invest, as they rely on well established relationships for their investment decision.

The panel's view is that the current circumstances offer a good time to find and execute deals, as the higher level of risk can offer attractive returns.

Are there many new developments coming to the market?

The panel observed that there is over-supply in the retail sector. Work on a number of developments has slowed down or put on hold.

Office space is being consolidated, with many companies sub-letting or relocating.

Sales in the residential sector have slowed down considerably and developers have revised their pipeline.

The panel concluded that Romania could take advantage of its development pipeline if growth resumes.

Is there much appetite for "green" projects?

The green agenda is driven both by increasing awareness of environmental issues and by a Responsible Business Practice agenda. Many investors adopt green projects to increase the marketability of their assets. There is also a cost element involved. With technological advancements, being environmentally friendly also makes economic sense.

How is the real estate industry evolving?

The panel's view is that human resources in this sector are well educated and increasingly experienced. There is still some suspicion in the market, although both investors and advisors are increasingly professional and organised. The panel concluded that there is a significant knowledge and experience gap to be filled as this sector matures. More initiatives are needed to share UK's significant know-how in this sector.